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FM AIT TAIPEI  
TO RUEHC/SECSTATE WASHDC 1156  
RUEATRS/DEPT OF TREASURY WASHDC  
INFO RUCPDOG/USDOC WASHDC  
RUEHBK/AMEMBASSY BANGKOK 3335  
RUEHBJ/AMEMBASSY BEIJING 5433  
RUEHUL/AMEMBASSY SEOUL 7940  
RUEHGP/AMEMBASSY SINGAPORE 6508  
RUEHKO/AMEMBASSY TOKYO 7836  
RUEHML/AMEMBASSY MANILA 9758  
RUEHJA/AMEMBASSY JAKARTA 3887  
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UNCLAS TAIPEI 002433

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STATE PLEASE PASS USTR  
STATE FOR EAP/TC, EAP/EP  
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USDOC FOR 3132/USFCS/OIO/EAP/WZARIT  
TREASURY FOR OASIA/LMOGHTADER  
TREASURY PLEASE PASS TO OCC/AMCMAHON

E.O. 12958: N/A

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SUBJECT: Middle East Tension Impacts Financial Markets

¶1. (U) Summary: The flare-up between Israel and Lebanon has impacted stock and foreign exchange (FX) markets in Taiwan. Like other Asian economies, on July 17, Taiwan experienced significant capital outflow, stock price plunges, and currency depreciation. End summary.

#### Currency Depreciation

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¶2. (U) Increased tension in the Middle East has caused capital to flow out of Asian markets mainly to the United States. The NT dollar (NTD) depreciated 0.59% to close July 17 at NTD32.86 per US dollar (USD). The NTD's 0.59% depreciation was comparable to the drop of 0.78% for the New Zealand Dollar, 0.63% for the Singaporean Dollar, 0.69% for the Philippine Peso, and 1.01% for the Japanese Yen. The NTD further depreciated to NTD32.96 per USD on the morning of July 18 but rose back to the NTD32.86:USD1.00 level in the afternoon trading session.

#### Stock Market Plunges

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¶3. (U) Taiwan's stock price index dropped 2.65% to close July 17 at 6,257.8 points, a seven-month low. Stock prices also dropped 3.6% in India and 1.4-1.8% in Singapore, Thailand and Indonesia. Stock prices plunges have driven investment funds from stock markets to bond markets both in Taiwan and the United States. Taiwan stock price index rose 0.4% to close July 18 at 6,285.31 points. The crisis has caused foreign portfolio investors to sell NTD5.67 billion (USD174 million) more stocks than they sold on July 17, and their net stock sales increased to NTD6.82 billion (USD210 million) on July 18.

#### FX Official Expresses Concern

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14. (SBU) The fighting between Israel and Lebanon concerns George Chou, Director General of Taiwan's Central Bank of China (CBC) Foreign Exchange Department. Chou was particularly concerned that Israel and Lebanon ignored the G8's joint statement on July 17 (Taipei time) to request for a cease fire. Chou told AIT that stock and FX markets would worsen if Iran is drawn into direct participation in the Israel-Lebanon confrontation.

YOUNG